Cannot send index for 1918.

1812

1918

U.S. securities government
finance

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, JANUARY, 1918.

The War Situation.

THE war situation has shown little change during the past month. The Italian front has been reinforced by British and French troops, and although the German and Austrian armies have gained some ground the advantage seems not to be significant. On the western front no extended effort has been made by either side, but the Germans are understood to have strengthened their forces from the Russian front and it has been assumed that they are getting ready for a supreme attempt to break through. In Asia Minor the British troops have driven the Turks out of Jerusalem. Negotiations for peace have continued between the Bolsheviki party in Russia and the German authorities and are still pending. On the face of the declarations exchanged by these parties, favorable to peace without annexations or indemnities, they would seem to be not an impossible distance from the conditions laid down by the Prime Minister of England in a recent speech. The latter called for the restoration of territory conquered by German arms, reparation for damage done, and proposed that the disposition of the German colonies and of the territory within the war zone in Asia be determined by the Peace Congress, with the exception of Palestine and Armenia, which the Prime Minister said would not be returned to the Turk. These are definite terms, and go far enough to show that the Allies are not bent upon the destruction of the German nation. President Wilson has made clear at every step that this country has no selfish purpose to serve. It is demanding neither territory nor indemnity. The essential purposes with it are to vindicate the rights of its citizens under long recognized principles of international law, to re-establish those principles of public right in the life of the world, and to restore peace upon a just and permanent basis. With the Allies the chief consideration undoubtedly is to secure guarantees that the world shall be made safe in the future from the aggressive policies of the German military autocracy.

The War Grip Tightening.

The grip of war upon the industries of the country has become more evident in the past month, the most pronounced demonstration being the action of the President in taking the railways completely under the government's control. The railways are the most important single factor in the industrial situation; every other industry has complained that it was limited by inadequate transportation service, and while this was the case it has seemed useless to apply the spur in other quarters. The advent of severe winter weather, which seriously reduces the capacity of the roads, brought matters to a crisis, and determined the President upon the course which he has taken.

Next to railway service, coal is the most vital necessity and the supply of this is so dependent upon transportation from day to day that when the latter fails it is difficult to say to what extent production is insufficient. The fact is that according to the figures compiled from month to month by the Geological survey the production of bituminous coal this year will be approximately 50,000,000 tons greater than in 1916, when it exceeded all previous records. There are practically no stocks outside of consumers' hands, and the railroads have delivered this increased production. In view of the fact that the industries were working at full speed throughout 1916 it seems remarkable that the situation should be so much more acute at this time than a year ago. The draft for the army has reduced the labor supply, and the output of the iron furnaces, which is basic material for many industries and usually accepted as significant of general conditions, has been slightly less in 1917 than in 1916. Nevertheless, there is a serious shortage of coal, estimated by Director Garfield at 50,000,000 tons, and notwithstanding the great importance of getting full service out of ships, hundreds of ships have been delayed in Atlantic ports, waiting for coal.

It is probable that over 75 per cent. of the iron and steel production is directly or indirectly for war purposes, and perhaps 85 or 90 per cent. of the copper. Lead production increased rapidly under the stimulus of high prices, and the general demand is now supplied

at about 6¼ cents per pound, New York. About 45 per cent. of the woolen and worsted spindles are running on government contracts. Gradually the war industries are encroaching upon other activities, attracting men, getting command of materials and obtaining a preference for such essentials as coal and railway service. The government has not gone to the point of naming non-essential industries, but has adopted the policy of converting such establishments, where practicable, to war work. This deals with all phases of the complicated problem in the most satisfactory manner. If an industry whose product may be classed as a luxury, or at least not in the class of wartime necessities, receives a government contract, the supply of the luxury is automatically shut off, but the employment of labor and disbursement of wages goes on as before. The new work is taken to the workmen, instead of their being obliged to hunt for it, possibly at a distance from their homes. The organization remains practically intact instead of being broken up. Normal conditions in the community remain unchanged, and the general policy is so clearly to the economic advantage of the country that the government can well afford, even at some pains, to follow it, rather than let contracts which involve the creation of new industries from the ground up.

The War Task.

We assume that few people are so unreflecting as to believe that business can really go on "as usual" when the country is engaged in a great war, which takes millions of men from the ranks of labor and requires millions more to keep the armies supplied with equipment and subsistence.

The idea that the person who spends $100 or $1 needlessly, instead of lending it to the government, thereby enables some other person to lend it to the government, and so helps more than by lending it himself, is made absurd by the mere statement. It is evident that the more the original sum is passed around, and the greater the number of people who must be paid for their services out of it, the smaller will be the remainder which can possibly reach the Treasury. The sum cannot possibly increase and is constantly diminished.

We take it that most of those who have shown concern about the effects of the plea for economy have been pleading for time for business to readjust itself from peace conditions to war conditions, in order that a period of disorganization and confusion might not intervene. In all discussion of the subject we have recognized this plea and emphasized the desirability of having the government assume the task of reorganizing the industries. But we have also recognized that with employment complete, wages high and general prosperity throughout the country, trade was bound to be in heavy volume, despite all that might be said for economy. Such has been the case, and probably will continue to be. The impulse to spend and habit of spending do not yield readily to mere economic argument.

However, now that the holiday trade season is past, and the critical state of the industrial situation and its relation to our war preparations is more apparent than ever, perhaps there will be more general recognition of the sober truth that every day lost in organizing the industrial forces of this country behind the army means peril to the allied cause, delay in getting our army into effective action, and prolongation of the war with all that means in loss of life and treasure.

The Congestion of Industry.

The testimony before the Senate Committee shows that the delay in securing clothing for the army has been due to difficulty in obtaining materials, and the consumptive demands of the public have been the chief factor in that. The congestion upon the railways is due to the enormous business the country is doing. The country is literally enjoying an extraordinary state of prosperity. The farmers have gathered a crop estimated by the Department of Agriculture to be worth $21,000,000,000, which is double the value of any crop ever raised prior to the war. Disbursements for wages are far above those of any previous time, the numbers of workers employed being greater, the time more nearly full and the wages higher. The expenditure of these widely distributed sums creates a vast volume of trade and traffic, and has put a burden upon the railways which in connection with the war business has been more than they could bear. An attempt has been made to give the government certain prior rights, but it is impracticable to shut off private business generally and the activity of trade everywhere shows that it has not been shut off. It has been going on, it has been taking up room on the railways, and played a part in cutting down the production of iron and steel to about 75 per cent. of the capacity of the works. This is direct interference with the work of preparing the country for war.

The demands created by the war plus ordinary consumption are far beyond the industrial capacity of the country, but owing to the unusual flow of money in circulation, passing through many hands, private consumption in many lines is probably greater than ever before. It would be so naturally, and will be so unless restricted either arbitrarily or voluntarily. But if it is greater than usual how is the government to get its work done? The appropriations authorized for expenditure this year foot up $19,000,000,000, which, as we have previously pointed out, compares with $24,000,-

000,000 as the total value of the output of all manufacturing establishments in this country, according to census figures, for the year 1914. These figures are more significant when it is known that they include the products of the great meat packing industry, and other establishments where the manufacturing process is comparatively slight. All-inclusive the value of the total product in 1914 was $24,000,000,000. This sheds some light upon the industrial significance of the government's plans to expend $19,000,000,000 in one year. Allowance must be made for higher prices, and for expansion in capacity since 1914, but in any event the comparison is startling.

Industrial and Financial Problems Allied.

There are a thousand schemes to enable the Government to obtain money or credit—purchasing power—without reducing the purchasing ability of the people. They are all fundamentally in error, because they overlook the fact that the use of purchasing power is limited by the supply of things to be purchased.

It cannot be too often pointed out that the industrial and financial problems of the war are closely allied. They are two phases of one problem, but it is easier to see the physical limitations of the industrial task than the limitations upon the use of credit. Everybody can see that the speed with which we can get ready for war is limited by the supply of labor and the capacity of the workshops, but a great many people overlook the fact that when the labor and shop-capacity of the country are already completely employed nothing more can be accomplished by merely creating bank credit or issuing government credit in the form of money. Nothing can be gained except as labor, materials and shop-capacity are released from private use and turned over to government purposes. We cannot turn over purchasing power to the government and still use it ourselves. We cannot put the government in possession of productive power without curtailing our own use of it. We cannot make any serviceable contribution to the work the government has in hand without curtailing in the same degree our own demands for labor and materials. In short, we cannot help without making sacrifices.

The argument for inflation is succinctly stated in the following paragraphs from a letter by a correspondent writing to us on this subject:

> You maintain that the funds necessary for subscriptions should be supplied entirely by the saving process on the part of individuals—a source which I think inadequate to furnish the tremendous amount needed, especially as only new savings, not the old ones, already invested, can be made available for the purpose.
>
> But in all the belligerent countries a part of the necessary funds was supplied by fiat money,—the increase of paper money and of bank money ("money in banks"). True, it means inflation, to some extent. But on the other hand the vastly increased business activity requires additional money; on the other hand, such additional money would consist, *with us*, chiefly of bank money, and the inflation of that is not nearly so objectionable as that of the circulation medium; in fact, it would not matter much.

When the writer says that the savings of individuals are not sufficient to finance the war he is thinking only of money savings. He will hardly deny that all of the labor and supplies which are required for prosecuting the war must be "saved" from private use and consumption. This is the vital saving. One way or another it must be accomplished, either by voluntary effort, with the people turning their purchasing power over to the government, or by inflation which diminishes the purchasing power of the people in their own hands, until they are obliged to curtail purchases.

Expansion and Inflation.

There is a legitimate expansion of industry when the volume of production and trade is increased. There has been an important degree of such an expansion in this country since the war began. But when production reaches its maximum and the supply of the purchasing medium, either in the form of money or credit goes on increasing, the result will be that the new purchasing power must expend itself in driving up prices. This is pure inflation, which places the business of a country on a false besis and almost inevitably ends in disaster.

The disastrous effects would be far more serious at this time than at any previous period of history, on account of the great volume of securities outstanding, largely the obligations of corporations whose income is in greater or less degree regulated by law or custom, so that they cannot readily adjust their charges to the value of money. If issues of paper money should be resorted to, and gold should go to a premium, a new and very grave complication would result from the fact that these securities are usually payable in gold. Corporations which were obliged to buy gold at a premium with which to discharge their obligations would be in a precarious situation and the whole financial community would be involved.

It is said to be impossible to carry on the war without inflation, and it is doubtless true that some degree of it is inevitable. All countries have it, and there has never been a war without it. The reason is that war calls for immediate and gigantic preparations, and the readjustment of industry and of habits of the people cannot be made at once. But the more promptly a people can be brought to see that they must get out of the way of the government and relinquish labor and shop-capacity to government work, the more quickly the government will get its full strength into the war.

Government's Needs Unlimited.

There is no limit to the amount of man-power and shop-capacity which can be used. Superiority is wanted in artillery, in machine guns, in aeroplanes, in torpedo boats, in ships over submarines, in every arm of the service; and the greater the superiority of numbers the sooner the war will be over. We are fighting with an enemy who is organized to the last man, woman and child.

As the workshops are given over to government use, private consumption will be inevitably curtailed, and as this occurs the people obviously will have more money to invest in the government loans, thus enabling the government to assume its greater part in industry. The industrial and financial phases of the problem are complementary—they support each other. The country can pay for all the work it can put into the war, because the war work is necessarily surplus work, over and above what is required to provide subsistence. The one thing it cannot do is to go about daily business as usual and have the government fight the war on its own account.

Some lines of business are certain to be seriously affected by the war. It will be the part of wisdom for those interested to promptly recognize the fact and set about adjusting themselves to it. In most cases they will probably find it possible to so adapt their business as to render war service of some kind. In other lines the volume will not be reduced, although possibly it should be. Employment will continue full, and the amount of money in circulation will remain very large. The disbursements of the Treasury will be widespread, and it is of the highest importance that everyone shall lend his aid and influence to direct as much as possible of this stream back into the Treasury, thus accomplishing a twofold public service.

Banking Situation.

The money market is firm, with time money at 5¾ to 6 per cent. The best commercial paper is offered at the lower quotation, and collateral loans at the higher rate. Loans for high class industrial corporations, running two to three years command 7 to 7½ per cent.

The payments upon the second Liberty Loan on December 15th the country over were chiefly made, as heretofore, by drawing on New York balances. It is estimated that 80 or 85 per cent. of all payments upon the loan have been made by drawing upon New York funds. The effect is to make heavy balances against the Federal reserve bank of New York in its settlements with the other reserve banks, and in favor of the New York bank in its settlements with the clearing house. These payments are so large that in order to avoid disturbance the Federal Reserve Board has been asking some of the reserve banks of the interior to take paper from the eastern reserve banks instead of collecting gold through the settlement fund at Washington and they have been glad to do so.

The total of bills rediscounted and bought in the open market held by all Federal reserve banks was $961,911,000 on November 30th and $956,076,000 on December 28th. The loans and discounts of the clearing house banks of New York were $4,838,935,000 on December 1st and $4,118,775,000 on December 29th.

Monetary conditions over the country remain about as in recent months with funds supplied for current needs, and little demand except for handling the regular exchanges and war business.

In the Middle West there was an extraordinary demand for credit in November and early December from farmers for the purpose of buying cattle and hogs to feed upon soft corn, of which there was a great quantity. These loans will not mature until the spring months or early summer. On the other hand, there was a heavy movement of cattle out of parts of Texas on account of drought, and throughout the South generally the banks have been buying commercial paper more liberally than in even normal times. In the manufacturing districts the banks are loaned up close and resorting freely to the Federal reserve institutions. The need for credit is greatly increased by the high level of inventory values and the slow movement of materials and goods in transportation. Federal reserve discount rates have been generally advanced. At the New York bank the rate on commercial paper of more than 15 days maturity is now 4½ per cent.; under 15 days 3½ per cent.; on paper secured by Liberty bonds and Treasury certificates, 4 per cent.; bankers' acceptances, 4 per cent.

With importations of gold practically at an end, reserves are no longer building up as in the first two years of the war, and with credits expanding, money is bound to be close while the war demands last. The percentage of reserve in the twelve Federal Reserve banks against both deposit and note liabilities is 63.6, which of course is more than abundant for the maintenance of gold payments. The reserve of the Bank of England has not been above 20 per cent. for more than a year, but nobody thinks gold is likely to go to a premium in London. The objection to a continued expansion of credit by the Federal Reserve banks now is that it will mean inflation with all that inflation signifies.

The Liberty Loans.

After the payments made on December 15th, only $60,400,000 remained unpaid of the $1,163,000,000 of the Second Liberty loan

allotted to the New York district, and at the close of business December 29th the Treasury had received $3,336,982,600 of the entire loan of $3,808,766,150, although 40 per cent. does not come due until January 15, 1918. This is rapid payment, considering that it has been made in the tightest season of the year. Moreover, the payment has occasioned only moderate demands upon the banks, as shown by figures given below.

The Federal Reserve Board has inaugurated the compilation of a weekly statement showing the condition of member banks located in the central reserve and reserve cities and certain other important cities. It is a commendable innovation, especially at this time, when it is desirable to follow closely the changes in banking conditions. It is stated that the member banks reporting represent approximately 80 per cent. of the reserve deposits in the Federal reserve banks, so that their figures for loans, deposits, etc., may be accepted as fairly representative of the banking situation in the country.

The first of the statements was for December 7th, and the figures for that date and for December 28th are given below.

	Dec. 7 (607 banks)	Dec. 21 (614 banks)
U. S. securities owned	$1,763,125,000	$916,047,000
Loans secured by U. S. bonds and certificates	373,517,000	401,182,000
All other loans and investments	9,542,255,000	9,651,387,000
Reserve with Federal res've banks	1,137,765,000	1,089,127,000
Cash in vault	388,228,000	364,156,000
Net demand deposits on which reserve is comp'd.	8,390,965,000	8,160,757,000
Time deposits	1,259,906,000	1,228,939,000

The reduction in holdings of United States securities is largely due to the payment of Treasury certificates, but in part to disposal of Liberty bonds.

The holdings of government bonds by all national banks on May 1st, 1917, before any Treasury certificates or Liberty bonds were issued, were $768,114,000. The figures for December 7 and 21 do not include all national banks, but, on the other hand, they include the large state banks and trust companies which have joined the Federal reserve system.

The figures for loans are net, not including re-discounts with the Federal reserve banks. The total amount of re-discounts secured by Liberty bonds held by Federal reserve banks on December 21st was $142,600,000.

This must be regarded as a very satisfactory showing, after the distribution of $5,808,000,000 of the Liberty bonds and $690,000,000 of Treasury certificates. One year ago nobody would have thought such a distribution possible without a greater use of bank credit. The expansion directly due to the government's borrowing has not been so great as the expansion which has resulted indirectly from the government's orders distributed among the industries. The effort to get these orders filled, with thousands of establishments bidding for labor and materials against the wants of private consumers, and against each other, has forced up costs and made it necessary to use more credit in the conduct of all business.

Liberty Bond Prices.

Liberty bonds have continued to come on the market in sufficient amounts to prevent a recovery of prices during the month. The 3½s are selling slightly under 98.50 and the 4s have been ranging from 97 to 97¼. It is evident that there was a considerable amount of deliberate over-subscription, with the intention of selling, and that this was encouraged by solicitors. Interest was centered upon making up the local quotas and persons were urged to subscribe upon the theory that the bonds would have a broad market and could be sold either at par or with only a slight loss. In many instances the seller expresses himself as satisfied to take a loss, as the cost of doing his "bit" for the government, not realizing that there are any further consequences.

It is important that there shall be a better understanding upon this point the country over. After such a campaign as the last one has been carried on in every city and village for weeks it is impossible that there should be a large unsatisfied demand for the bonds. When the war comes to an end, and the issues cease, the floating supply of bonds will be soon absorbed, and the price probably go to a premium, but the market will not take them under present conditions except at a discount. Moreover the seller at a discount has done something more than make a small personal sacrifice. He has disturbed the market for government bonds, and affected the outlook for future issues. It is hoped that the rate will not have to be raised, not only because a higher rate will increase the cost to the government, but because it will have an unfavorable effect upon the capital value of all outstanding securities and investments. But can the government place another issue of 4 per cents. at par when the last issue is selling on the market at several points below par? Each individual who sells government bonds below par is exerting an influence which may compel a higher rate in the future, and a relatively small aggregate of sales may cost the government very heavily, if the rate must be higher on a large issue running over a term of years.

It is suggested that somebody should "support" the market, but who knows what the outcome of that would be? The subscribers to these bonds were actuated very largely by a

sense of patriotic duty, and most of them are keeping the bonds in obedience to that sentiment, but if there was an apparently free market at par for them, indicating that they were actually wanted at that price, the offerings might be very large. Thousands of people might be glad to put themselves in position to subscribe to the next loan, or to use their capital otherwise.

After a large flotation it is inevitable that many subscribers will find it necessary to sell out, and there should be no obstacle to their doing so or criticism upon them, but it is a mistake to encourage subscriptions without any bona fide intention to take and pay for the bonds. The campaign for subscriptions is necessarily strenuous; it must be urgent; but the purpose of it is to supply the government with means to carry on the war. Nothing is accomplished by subscription lists which mean anything less than this. People should be urged to subscribe with the intention of economizing to the point of sacrifice to help the government through. As we have repeatedly sought to emphasize, the reduction of individual purchases, of individual demands upon labor and materials, is just as important as putting money in the Treasury. We must get down to the bare, hard facts of this war situation.

It would be an admirable move for the subscription committee in each locality to give some attention to the subscriptions which cannot be carried through and endeavor to replace them in the same locality. This would relieve the New York market of offerings from all parts of the country.

Another practice which although doubtless well intended works out undesirable results, is that inaugurated by merchants, of advertising to receive Liberty bonds in exchange for merchandise. If trade can be attracted in this manner a merchant probably can afford to sell the bonds at a discount. The government, however, does not want its bonds sold below the issue price. It is embarrassed and injured by every such sale.

Secretary McAdoo's Warning.

The Secretary of the Treasury in his annual report to Congress refers to the possibility that a higher interest rate may be necessary upon future bond issues, and says:

> I have indulged the hope that additional bonds could be sold on such reasonable terms that the remainder of the funds required to meet the estimated expenditures for the fiscal year 1918 might be raised by that means and thus escape additional revenue legislation at this session of the Congress. It is my earnest conviction that the general economy of the country should be permitted to readjust itself to the new revenue laws before consideration should be given to the imposition of additional tax burdens. If a situation should develop where the Government could not sell convertible and partly tax-exempt bonds upon a 4 per cent. basis, it would, I believe, become necessary to seriously consider further revenue legislation. In my judgment an increase in the rate of interest on such bonds would be extremely unwise and hurtful. The higher the rate on Government bonds, the greater the cost to the American people of carrying on the war and the greater will be the depreciation in all other forms of investment securities. We can not regard without concern serious declines in the general value of fixed investments. It should be the earnest endeavor of everyone to prevent this, and I earnestly hope that the processes of education and of unselfish consideration of the problem from the standpoint of the general interest will provide the necessary remedy.

It would probably be possible to handle another issue of 4 per cent. bonds at par by making changes in the terms as to maturity or redemption which would be less objectionable than an advance in the interest rate.

Treasury Operations.

At the close of business December 27th the Treasury had a cash balance of $820,679,516, of which $732,821,468 consisted of funds arising out of borrowing operations and remaining in special depositories. The amount in reserve banks was $61,141,037.

All Treasury certificates except those of the issue due in June, 1918, have now matured. Of the latter, $690,000,000 have been sold, the New York district taking $490,070,500. The Secretary is now receiving subscriptions to another issue of these certificates. After allotment, payment must be made not later than January 15th. The interest rate is 4 per cent. The certificates will be in denominations of $500, $1,000, $5,000, $10,000 and $100,000.

These certificates mature at a time when payments of income and excess profit taxes will be at the climax. They will be directly receivable by the Treasury upon such payments. It is important that firms and corporations whose Federal taxes will run into large sums should begin now to set aside a definite portion of their income for that purpose. It will not be safe for them to calculate that they can make offhand arrangements for credit next June, for the aggregate demand if it falls upon the banks at once may be too great for them to handle. These certificates are a convenient means of making advance provision for these payments, and it will be wise for bankers who have large customers likely to look to them for accommodations to either lay in a stock or direct attention to this offering.

The effect of a wide distribution of the certificates will be to put the Treasury in possession of the revenues gradually and in advance of tax-paying time, and to thus reduce the amount of bond-selling it will have to do in the meantime. Inasmuch as these certificates to the extent of several million dollars will be

liquidated by taxes, it would be quite safe to increase the amount authorized, which is now only $4,000,000,000, and thus delay the next Liberty loan into the spring.

Future Financing.

The report of the Secretary of the Treasury to Congress last month gave no encouragement to those who have hoped for some relaxation in the Treasury demands. He adheres closely to his former estimate of the expenditures that will be necessary in this fiscal year, placing them at $18,775,919,955. Ordinary receipts, including proceeds of the new taxation, are placed at $3,886,800,000. He received a remainder of $533,665,000 from the first Liberty loan, and will have $3,808,766,150 from the second Liberty loan. There remains authority to sell $3,666,233,850 of 4 per cent. bonds corresponding to the second issue, and he estimates an income of $663,200,000 from the War Savings Stamps. Altogether he figures a deficit of $6,195,187,155 to be provided for after selling the bonds remaining under the old authorization. This means nearly $10,000,000,000 in all, exclusive of taxes.

The actual disbursements from July 1st to December 26th, including loans to allies, amounted to $5,123,418,380, and for the last three months they have been as follows: October, $904,368,751; November, $986,081,807; December to the 26th, $1,026,821,323. If disbursements for the fiscal year are to reach the sum named they will have to amount to about $13,500,000,000 in the six months which remain.

We have already expressed the opinion that the country can pay for any amount of work it can do. That is a self-evident proposition, because the work will have been paid for by somebody when it is completed. A considerable portion of the work for which the $13,500,000,000 is estimated may be already done; what remains is a distribution of the cost. The $13,500,000,000 will scarcely get into the Treasury, but will be restored to the banks and circulation practically as received.

New Capital Flotations.

The subject of curtailing capital flotations upon the public market, or of determining the order of priority, has been under discussion. Owing to the physical difficulties attending upon new industrial undertakings and the high rates which capital now commands, the volume of such offerings has been greatly reduced, but the Secretary of the Treasury has the matter under advisement. His annual report says:

> The Government must, if necessary, absorb the supply of new capital available for investment in the United States during the period of the war. This, in turn, makes it essential that unnecessary capital expenditures should be avoided in public and private enterprises. Some form of regulation of new capital expenditures should be provided. The subject is having deep study, and I hope to be able to submit some suggestions during the session of the Congress which will be of a constructive, as well as of a regulatory, nature. It may also become necessary to concert some constructive measures through which essential credits may be provided for those industries and enterprises in the country essential to the efficient and successful conduct of the war.

In England the regulations governing capital investments extend to control over any construction to cost $500.

The Bond Market.

Bond transactions during the past month have been subject to erratic fluctuations—"peace rumors," "war taxes" and "government control of railroads" playing an important part in the daily quotations.

Rails and industrials were inactive with fairly firm prices at the opening of the month. During the second week more activity developed but prices declined. The third week of the month witnessed a very general decline in all classes from high grade rails to the more speculative foreign governments, the latter being particularly weak. This condition continued until December 21, when wide advances were recorded in practically all of the foreign issues, Anglo-French 5s reaching a price of 89⅛, an advance of over seven points from recent low quotations of 81⅞. This sudden upturn in the market was attributed to the favorable influence of the Secretary of the Treasury's ruling on the inventory of securities in dealers' hands, which permitted losses in such securities to be deducted from the income tax returns without the actual sale of the securities. It is generally believed that the Secretary's ruling has relieved a great deal of pressure which resulted in the severe decline earlier in the month. These various currents have made it difficult to diagnose the market, for it is only under exceptional conditions that we experience such wide fluctuations in Anglo-French 5s, or an upturn of 1½% in a day in U. S. Steel 5s, which carried them to 96.

In the municipal market the noteworthy transaction of the month was the prompt sale of $15,000,000 Miami Conservancy District, Ohio, 5½% Bonds. The following quotation from the Annalist summarizes the general favorable comment which appeared in all financial dailies:

> "The single bright spot was found in the perfectly phenomenal success of the offering of the Miami Conservancy District 5½s. This bond is something comparatively new in the investment field. Instead of being the obligation of a single municipality the Conservancy Flood Protection District covers an area of more than 169,000 acres of fertile territory in Ohio, taking in parts of nine counties, and including the cities of Dayton and Hamilton and a number of smaller municipalities. The

syndicate originally offered $10,000,000 5½s maturing serially from December 1, 1922 to 1946, at par and interest, with a substantial commission to dealers and institutions. The entire block was sold almost immediately, and the option on $5,000,000 more bonds exercised at the same price, and by Thursday the entire $15,000,000 bonds were placed so beautifully that a premium was bid on Friday. While the bond is in many ways unusually attractive, being exempt from all Federal taxes and yielding 5½%, the rapid distribution astonished even the syndicate members."

Other municipal issues during the month included

$10,000,000 New York City Three Months Revenue Bills at prices ranging from a 4.50% to a 5.02% basis.
$500,000 St. Louis, Mo., 4% School District Bonds, which were offered on a 4.60% basis.
$300,000 Westchester County 5% Bonds, which were offered on a 4.65% basis.

Over-the-counter business was restricted largely to the bond houses with active sales organizations in the field. Several small issues were offered with varying success, the more important including:

$1,250,000 Memphis Street Railway 6% Notes due Nov. 1, 1919, to yield 7.40%.
$1,500,000 United Light & Railways 6% Notes due May 1, 1920, to yield 7½%.
$1,200,000 Seaboard Air Line Ry. 6% Equipment Notes due June 1, 1918, to December 1, 1927, to yield 6¾% to 7%.
$4,000,000 Cleveland Electric Illuminating First 5% Bonds due April 1, 1939, to yield 5.85%.
$3,000,000 Edison Electric Illuminating of Boston 6% Notes due Dec. 1, 1919, to yield 6.65%.
$1,000,000 Northern Ohio Traction & Light 7% Bonds due Dec. 1, 1919-1926, to yield 7%.
$6,350,000 Cities Fuel & Power Co., 7% Notes, due Dec. 1, 1919, to yield 7½%.
$4,500,000 Shawinigan Water & Power Co. 6% Notes due Dec. 15, 1919, to yield 7.35%.
$1,000,000 United Electric Light Co., Springfield, Mass., 6% Notes due Dec. 1, 1920, to yield 6.65%.

The Wall Street Journal compilation of forty selected issues for December 26 was 82.19 as compared with 84.78 November 26, 1917, and 94.97 December 26, 1916.

Government Control Over Railways.

The action of the President in taking over the railways was one for which the country, including the railway officials, was prepared. The latter have been well aware of the gains that might be accomplished by closer relations between the roads, and have achieved important results in this way since last spring, but there were legal limitations upon what they could do. The earnings of each railway belonged to itself, and this fact could not be disregarded by a mere committee of officials in routing traffic. The government is able to guarantee the net earnings of the roads, on the basis of the last three years, and having done this it is in position to route the traffic, pool the equipment and earnings, make common use of the terminals, and in all respects manage the properties with a sole view to obtaining the greatest possible service out of them. The roads are freed from all the legal restrictions which were upon them in private hands. The new authority is superior even to the Interstate Commerce Commission.

This is done offhand, because the necessities of the country demand the best service that can be had. There is no time for elaborately worked out plans; it is important to immediately get all the railways of the country to working as one system. The Director-General in charge is the Secretary of the Treasury. This fact is enough to show that the roads will be operated by the Government only in the most general sense, for the Secretary of the Treasury is a very busy man even when he has nothing to do but manage the finances of the Government in time of war. The Director-General obviously will manage the railways only in the sense of determining general policies, but the very need of the situation is for a directing authority so far removed from details and from the special interests of localities or individual roads that he will see only the larger features of the problem and these from the national standpoint. His selection of assistants is an earnest of his intention to surround himself with the best railway talent in the country, and to give this great experiment every chance of success.

The response of the stock market to the action showed with what apprehension the public had been viewing the situation of the railroads. In the recent hearings before the Interstate Commerce Commission an attorney representing certain associations of shippers sought to maintain that railroad stocks were down simply because of general financial conditions, and not because of any lack of confidence in them as investments. The sudden rise that followed the President's action answered this theory. General financial conditions have been a factor in the market decline, but the public has been afraid of the future of the railways. Government control and possible ownership have not been considered bull arguments for railroad securities in the past, but it is a genuine relief to owners to be assured that for a time at least income will be stabilized on the basis proposed.

The present state of affairs is due to the fact that while production and commerce have been increasing with tremendous strides in recent years, railway facilities, particularly at the terminals, have not been correspondingly increased. The unsettled status of the railways has been largely responsible for this.

Future Policies.

There is a general belief that a permanent reorganization of the railway system will result from this venture, although the form it will take is a matter upon which opinions are widely divergent. Nobody has claimed that railway organization and practices were all that they should be,

but differences between the railway people and those who sought to regulate them have been such that no policy satisfactory to either has been worked out. The railways have desired to co-operate and combine to secure the very advantages which are now in view, but the legislators representing the public have been afraid to permit them to do so. The public policy has been to compel competition. The final adoption of unified management under Government control does not prove that either side was wholly right in the past. It does not follow that the roads should have been let alone to combine and do as they pleased, nor that Government ownership and operation is the ideal system. The ideal plan is somewhere between, and not far in principle from the plan now adopted temporarily. The Government should be in it in a supervisory capacity, but in the great transportation industry an opportunity should be kept open for individual initiative and enterprise. The possibilities of improvement are too great for the industry to be standardized and fixed in its methods under the deadening influence of bureaucratic management.

It is only necessary to turn to the Post Office department to find some of the faults of governmental management. The business of the Post Office is comparatively simple; it only handles and delivers the mail matter given to its charge. There is no great physical plant to keep up and develop as in the case of the railways. In his annual report submitted to Congress last month the Postmaster General again asked for authority to let contracts for the delivery of mail over rural routes, stating that he could save approximately $20,000,000 by doing so. This is the third time he has made this recommendation, and it is safe to say that it will receive no more attention now than heretofore. If the railways were to be conducted in this manner, and expenditures for their improvement and development were to be determined as expenditures for the improvement of rivers and harbors, and for the construction of postoffice buildings are now determined, it is easy to see what the results would be.

The railways of the United States are now in the hands of men developed under competitive conditions, and in the discipline of private business. They have been obliged to satisfy their superior officials, and at the same time had opportunities to better their condition by going to other companies. The roads, although operated nominally by the government, will be in reality operated by this staff. But what kind of a staff will take their places eventually, selected by civil service examination and promoted by seniority? Will the same type of railway officials be evolved under the regime of government ownership, if that should be the permanent system? That is the vital question up to the theory of government ownership.

The railways of Great Britain have been now more than three years under government management, and it is interesting to note that criticism is not entirely stilled. The London *Times*, commenting upon congestion at the terminals, says:

> The railways are certainly short of labor, but is it established that all the officials are putting their very best efforts into the solution of the present problems? The railways are now Government-controlled institutions and competition has diminished where it has not vanished. It seems to be a question whether quite the same amount of thought and work is being put into the efficient management of the companies as in the days before the war when the lines were keenly competing against each other. This question which has been raised of a slackening of effort directly in consequence of the nationalization of the railways is a serious one and evidently deserves inquiry. Only a railway man can speak with authority upon it. Many of the railway officials no doubt hold that the old competition of the pre-war days has been or should have been succeeded by a better competition—namely, a competition among the companies to serve best the national interest. The whole matter of dealing with the cargoes passing through the ports is vitally important, since it is known that the carrying capacity of the ships could be enormously increased by giving quicker dispatch. There are signs in all directions that no efforts are being spared by the shipping authorities to use all tonnage to the utmost possible extent. Similar signs that the railway authorities are giving as much attention to their side of the problem would be welcome. No one with even the most superficial knowledge of the subject can doubt the existence of very great difficulties under which the railways must now be working. But the public is entitled to know if the railways are now using what remains to them with the utmost efficiency.

The Acceptance.

Knowledge of the advantages to be gained in the general improvement of credit conditions, and in securing greater mobility of credit, by the use of the trade acceptance in place of the open book account is spreading, but the change is not as rapid as it ought to be, in view of the great importance to the country at this time of adopting the most scientific and economical methods of handling business. An important effort to hasten the general adoption of the policy has been recently started by the creation of the Trade Acceptance Council, a body of nine members, which had its inception at the September meeting of the Chamber of Commerce of the United States at Atlantic City. That body gave one session upon its program to a discussion of the acceptance and created a committee of three to co-operate with committees of other organizations in promoting the extension of its use. The American Bankers' Association, meeting at Atlantic City on the following week, appointed a committee of three to act with the committee of the Chamber of Commerce, and the National Association of Credit men appointed a committee

of three to act with the two committees foregoing. These three committees have organized the Trade Acceptance Council, with Mr. Lewis E. Pierson, of the Irving National Bank, New York, as President, and Mr. J. H. Prego, of the National Association of Credit Men, as Secretary.

The arguments in favor of the acceptance in place of the open book account should be conclusive to the man who believes in doing business upon sound principles and in definite terms. In the first place, the execution of an acceptance converts the account into a negotiable instrument, which as a definite, tangible asset is much superior to a mere book charge. It closes the original transaction, and while it does not prevent a buyer from making subsequent representations as to errors in an invoice or defects in the quality of goods, it brings about a prompt disposition of such questions, as in case where a cash discount is taken.

In the second place, an acceptance is a promise to pay on a date certain, and as the paper is likely to be in other hands at maturity, it is understood that punctual payment is expected.

If there are good reasons why the buyer cannot meet his acceptance at the due date, he can present them to the seller and arrange with the latter to take up the paper, possibly issuing a renewal. That this is not so easy a method of getting more time as to simply neglect the payment of a book account, is to be counted in favor of the acceptance. Punctuality is a virtue in the business world, and every practice which tends to cultivate it is to be encouraged. A vast amount of business is done in this country upon credit, and the granting of credit for definite periods is an entirely legitimate business practice, but it would be greatly to the advantage of both buyers and sellers if there was stronger insistence upon prompt payment of debts when they fall due.

The objection is sometimes made that the greater ease of financing purchases by means of the acceptance may encourage over-buying, but there is reason to believe that the greater obligation to make prompt payment will be an effective restraint upon both sellers and buyers.

Gives Mobility to Credit.

Over and above the fact that the conversion of book accounts into acceptances will promote sound business methods there is the larger consideration that it will more effectively utilize the credit resources of the country and tend to separate the banking function from the merchandising function. After a sale has been effected to a responsible party, and nothing remains of the transaction but a short credit, there is public economy in utilizing bank credit. It is the business of banks to trade in credit as it is the business of merchants to trade in goods and the banking system is a reservoir in which the temporarily idle credits of the country accumulate. Among the thousands of banks there are always many who do not have use for all their funds locally. The Federal Reserve Board as a deliberate policy has made the acceptance a preferred form of credit. The fact that the Federal reserve banks will rediscount acceptances at the lowest rates makes them a most desirable investment for member banks, and there is reason to believe that there will be a steadily widening market for them as all the advantages from their use become generally understood. They carry on their face the evidence which the reserve banks require as to the commercial character of paper offered for rediscount, and this is calculated to give them great mobility. As the supply of well-known names on the market increases, trading will increase, and banks may be expected to resort to this class of outside paper to take up their idle funds. The efforts of the Federal reserve authorities to build up a broad discount market are deserving of the support of business men and bankers. They have given the lead, provided the outlet for paper of this class, and the business interests of the country should co-operate.

Of course the fact that paper is executed in this form will not obviate the necessity for close attention to credit conditions and a careful scrutiny of names. It will not make good risks of poor names, but it will give greater fluidity to sound credit, and in that way help the country to finance its needs in the period of financial strain through which we are now passing.

The acceptance is not urged as a substitute for the cash discount. No doubt it is desirable to have the buyer, where practicable, finance himself entirely independent of the seller, but in a country where so large a volume of trade is carried on upon open acounts it will not do to say that no improvement short of the complete adoption of cash payments is worth while. There is a large field in which credit conditions can be improved by using the names of seller and buyer together. Both will be benefited, and both will be prompted to more scrupulous attention to sound business methods in order to protect their credit.

It will promote the introduction of the acceptance if business men of the various branches of trade will pursue a common policy in regard to it, and this is being done in some instances. The National Implement and Vehicle Association has adopted resolutions recommending it to members of that body. Other organizations have done likewise, and the Trade Acceptance Council proposes to take up the subject with all commercial bodies.

Lake Washington Canal, Seattle.

A long talked of public improvement, serviceable to commerce, has been completed at Seattle this year, by opening the ship canal connecting Lake Washington, through Lake Union, with the waters of Puget Sound. Lake Washington is a fine body of fresh water, 25 miles long and 4 miles wide, lying on the eastern boundary of Seattle, the surface 9 feet above the sound at high tide. As long ago as 1856, General George B. McClellan, a government engineer, recommended to the Secretary of War, Jefferson Davis, the construction of a water way on the line now followed by this canal. There was not much commercial use for it at that time, but ocean shipping derives important benefits from anchorage in fresh water, which clears salt water barnacles from the hulls. As Seattle grew to be an important port the project was revived, and finally undertaken, the Federal government, state, county and city sharing in the expense. The national government bore all of the cost of the locks, which are capable of accommodating larger vessels than any other locks in this continent, save those of the Panama Canal. The canal is eight miles long, 100 feet wide and 36 feet deep. The principal lock is 825 feet long, 80 feet wide and holds a depth of 50 feet of water. Ocean-going vessels make the passage through the large lock in 20 minutes, and smaller craft go through a smaller chamber in 5 to 10 minutes. The total cost of the canal, including right-of-way, locks, etc., was about $5,000,000.

The canal furnishes a great non-tidal harbor, with an abundance of frontage for docks and warehouses, convenient of access from the city. Its completion is an important event to Seattle, but such achievements are of national significance as well, for the whole nation is served by every permanent improvement in the facilities of its ports.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS DECEMBER 28, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	19,900	323,306	18,322	29,202	6,206	5,740	31,885	4,996	14,757	1,588	12,241	31,774	499,917
Gold Settlement Fund	16,977	20,854	39,101	37,168	22,097	13,407	54,674	17,884	20,287	37,206	24,223	13,642	317,520
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2.100	2,100	2,625	1,838	2,888	52.500
Total gold held by banks	40,552	362,272	61,098	71,095	30,140	20,722	93,909	24,980	37,144	41,419	38,302	48,304	869,937
Gold with Federal Reserve Agents	37.897	250,599	56,946	55,410	31,602	49,821	124,400	32,366	31,920	42,052	25.037	43,801	781,851
Gold Redemption Fund	2,000	10,000	1,500	99	485	1,099	615	930	868	507	1.218	24	19.345
Total gold reserves	80,449	622,871	119,544	126,604	62,227	71,642	218,924	58,276	69,932	83,978	64,557	92,129	1,671,133
Legal tender notes, Silver, etc	3,960	40,784	1,149	210	185	444	771	634	365	53	714	366	49,635
Total Reserves	84,409	663,655	120,693	126,814	62.412	72,086	219,695	58,910	70.297	84,031	65,271	92,495	1,720.768
Bills discounted, Members	65,931	254,985	39,521	44,601	30,107	16,260	106,525	39,812	13,491	34,814	8,873	25,786	680,706
Bills bought in open mark't	8,341	148,125	18,417	22,026	13.038	6.935	8,662	7,380	7.799	1,425	14.368	18,850	275.366
Total bills on hand	74,272	403,110	57,938	66,627	43,145	23,195	115,187	47,192	21,290	36,239	23,241	44,636	(c) 956,072
U. S. Governm't long-term securities	610	1,309	7,467	8,268	1,221	2,547	7,007	2,233	1,888	8,849	4,496	2,455	48,350
U. S. Governm't short-term securities	2,194	8,493	2,648	31,221	1,969	1,491	3,368	1,444	1,341	1,784	1,430	1,500	58,883
Municipal Warrants		511	10	7		302			25		150		1,005
Total Earning Assets	77,076	413,423	68,063	106,123	46,335	27,535	125,562	50,869	24.544	46,872	29,317	48,591	1,064,310
Due fr. other F. R. Bks. net				9,216		2,112	5,692	6,078	1,065	2.659		5,684	(b) 11,936
Uncollected Items	19,012	75,975	32,856	22,180	19,784	17,090	36,841	16,538	8,344	23.615	15,307	12,565	301,107
Total deduction from gross deposits	19,012	75,975	32,856	31,396	19,784	19,202	42,533	22,616	10,409	26,274	15,307	18,249	313,043
5% redemption fund against F. R. bank notes										400	137		537
All other resources					287	337	492	316	661		720		2.813
TOTAL RESOURCES	180,497	1,153,053	221,612	264,333	128.818	119.160	388.282	132,711	105,911	157,577	110,752	159,335	3,101,471
LIABILITIES													
Capital Paid in	5,858	18,684	5,887	8,026	3,664	2,811	9,067	3,474	2,617	3,396	2.795	4,163	70,442
Government Deposits	6,798	8,838	5,638	30,797	3,278	4,704	6,829	5,874	8,064	8,943	6,334	12,116	108,213
Due to members—reserve account	79,215	663,613	84.382	107.946	43,721	38.176	169,789	49,391	40,314	68,968	44.980	62,671	1,453.166
Collection Items	14,861	40.982	27,076	14,551	14,144	7,909	21,582	13,512	5,305	12,549	8,747	10,475	191,693
Due to other F. R. Bk's net	606	9,085	4,343		5,816						720		
Other deposits incld'g. for Government credits		12.150		109		52	2.930	187	7	28		2,502	17,965
Total Gross Deposits	101,480	734,668	121,439	153,403	66,959	50,841	201,130	68,964	53,690	90.488	60,781	87,764	1,771,037
F. R. Notes in actual circulation	72,214	396,970	93,643	102,221	58,195	65,508	178,085	60,273	49,604	55,299	47.176	67,300	a 1,246,488
F. R. Bank Notes in circulation, net liability										8,000			8,000
All other Liabilities incl. Foreign Govern't credits	945	2,731	643	683						394		108	5.504
TOTAL LIABILITIES	180.497	1.153.053	221.612	264,333	128,818	119.160	388,282	132,711	105.911	157,577	110.752	159,335	3,101,471

(a) Total Reserve notes in circulation, 1,246,488.
(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 11,936: The Gold Reserve against net deposit Liabilities is 59.7%; Gold and lawful money reserve against net deposit liabilities 63.1%. Gold Reserve against Federal Reserve Notes in actual circulation, 64.3%.
(c) Bills discounted and bought; municipal warrants: 1—15 days 395,813; 16—30 days 118,555; 31—60 days 280,788; 61—90 days 152,831; over 90 days 9,090. Total 957,077.